TRS Out-of-State Service Credit

Background

This proposal is an outgrowth of the Age 65 study in the 2004 interim, and was presented as one of the Age 65 Retirement Options. Currently members of TRS may use out-of-state service credit solely for the purpose of determining the time at which they may retire. (Such service is not purchased and it is not membership service.) This proposal allows the acquisition of out-of-state service credit that can be used not only for retirement eligibility, but also to increase the member's retirement benefit.

Committee Activity

Presentation:
August 23, 2005 – Full Committee

Proposal:
August 23, 2005 – Full Committee

Recommendation to Legislature

Allow eligible members of the TRS Plans 2/3 to make a one-time purchase of up to seven years of membership service credit for public education experience as a teacher in a public school in another state or with the federal government. The member must have at least five and less than ten years of service credit in TRS to be eligible. The member pays an amount that includes applicable employer and employee contribution rates plus interest.

Staff Contact

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TRS Out-of-State Service Credit

(December 15, 2005)

Issue

The issue before the SCPP is whether to continue to propose legislation allowing eligible members of the Teachers' Retirement System (TRS) Plans 2 and 3 to purchase up to seven years of membership service credit for public education experience as a teacher in a public school in another state or with the federal government.

Staff

Laura Harper, Senior Research Analyst/Legal
(360) 586-7616

Members Impacted

This proposal impacts eligible members of TRS Plans 2 and 3. We estimate that 1,236 TRS 2 members out of 7,470 active TRS 2 members, and 26,803 TRS 3 members out of 49,302 active TRS 3 members could be affected by this bill.

Current Situation

Currently, members of TRS may use out-of-state service credit solely for the purpose of determining the time at which the member may retire. The service credit is not purchased and it is not membership service. The member's benefit is actuarially reduced to recognize the difference between the age a member would have first been able to retire based on service in the State of Washington and the member's retirement age using the out-of-state service credit.

Procedural Posture/Executive Committee and SCPP Recommendations

As the result of the September 7, 2004, briefing of the SCPP on the issue of Age 65 Retirement, an "age 65 subgroup" was formed to make specific recommendations to the SCPP. In the fall of 2004, the subgroup recommended to the Executive Committee that the SCPP consider legislation to provide eligible members of TRS Plans 2/3 the opportunity to purchase up to seven years of out-of-state service credit as membership service, with conditions as set forth in the description below. The Executive Committee directed staff to prepare a bill draft and fiscal note on the proposal and the full Committee approved the proposed legislation for introduction in the 2005 legislative session.

In the 2005 session, the SCPP's bill was introduced as HB 1322/SB 5489. The bill did not move from House Appropriations and did not receive a hearing in Senate Ways and Means. The 2005 fiscal note indicated a total employer cost of $4.5 million in 2005-2007, $5.1 million in 2007-2009, and $130.4 million through 2030. At its July 2005 meeting, the Executive Committee recommended that this issue be brought back to the full committee for consideration on August 23, 2005. On August 23, 2005, the full SCPP recommended bill draft Z-0785.1/06 for introduction in the 2006 legislative session. This bill draft incorporates the elements of the 2005 proposal.

2005 SCPP Legislative Proposal

Eligibility

1. This proposal impacts the Teachers' Retirement System (TRS) by allowing members of Plans 2 and 3 to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System.

2. The public education experience claimed must have been covered by a governmental retirement or pension plan and the member must not be receiving or eligible to receive an unreduced retirement benefit that includes the service to be purchased.

3. To take advantage of this provision, a member must have between five and ten years of service credit in TRS.

4. The purchase cannot result in the purchase of service credit that is greater than the member's total years of creditable service in the retirement system.

5. The service credit purchased is membership service and may be used to qualify the member for retirement.

Cost to Member

1. The member pays the product of the sum of the applicable employer and employee contribution rates multiplied by the member's salary at the time of purchase and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in the actuarial funding chapter, Chapter 41.45 RCW:

   (Employer rate + employee rate) x salary x years of service + compounded interest (8 percent)

   The applicable employer and employee contribution rates are based on the member's age at entry into TRS and calculated under the entry age normal cost method.

2. All or part of the cost may be paid by a rollover or transfer from an eligible retirement plan and the employer may pay all or a portion of the member's cost.

Policy Analysis

This proposal provides a benefit to the TRS Plans 2 and 3 that is not available in the SERS or PERS Plans 2/3, nor will it be available in PSERS Plan 2. The proposal is inconsistent with the legislative policy that the retirement systems of the state shall provide similar benefits wherever possible. See RCW 41.50.005(1). If it were passed by the legislature, this proposal could lead to "leapfrogging" in that members of other retirement systems may seek similar or improved service credit purchase opportunities in the future. Proponents of this legislation have argued that the teaching profession has a unique need for this benefit in order to assist in recruitment and retention of teachers.

It should be noted that TRS members have another service credit option that PERS and SERS members do not have and PSERS members will not have: the ability to elect to apply service credit earned in an out-of-state retirement system that covers teachers in public schools solely for the purpose of determining the time at which the member may retire. See RCW 41.32.065. TRS members are not required to pay for the out-of-state credit, as it is not used to increase the amount of their benefit.

As of July 1, 2006, all Plan 2/3 members in PERS, SERS and TRS will have the ability at retirement to make a one-time purchase of up to five years of additional service credit (or "air time") in order to offset the required benefit reductions for early retirement. (This ability has not been made available to members of PSERS Plan 2, who have an earlier retirement age for unreduced benefits than members of the Plans 2/3 of PERS and SERS.) There is no cost for this option because the purchase price for "air time" is the actuarial cost, which is paid in full by the member. Since the purchase occurs late in the member's career (at early retirement), the member's cost is higher than it would be early in a member's career. In any event, this benefit is relevant to the out-of-state service credit purchase issue in that members of these plans who have prior service credit from another state could use retirement moneys from those other plans to help purchase "air time."

Comparative Systems

According to a December 7, 2000, report to the Connecticut General Assembly, nearly all teacher retirement plans allow members to purchase credit for out-of-state teaching service, but most impose limits on such purchases. Among the most common are limits on the number of years of service a member can purchase, requiring the member to have a minimum number of years in the state plan before (s)he can purchase other service and limiting purchases to service for which the member will receive no other pension.

The following table summarizes two aspects of out-of-state service credit purchase provisions for teachers using Washington's comparative systems: 1) the maximum number of years that can be purchased, and 2) member cost:

State/System	Maximum Number of Years	Member Cost
CalSTRS	No limit	Years x special contribution rate with age factor x highest earnable compensation during last three years
Colorado PERA	No limit	Actuarial cost
Florida	10 years	20% of annual compensation for first full year of service in FL but not less than $12,000, plus interest @ 6.5% compounded annually from date of first annual salary until full payment; employer may pay all or part of the cost
Idaho	4 years	Actuarial cost
Iowa	No limit	Actuarial cost
Minnesota TRA	Not allowed	
Missouri PSRS	No more than total service credit earned	Highest annual salary x current contribution rate (ER + EE) = cost for one year of service credit
Ohio STRS	Lesser of 5 years or member's total years of service	50% of actuarial cost
Oregon	4 years	Actuarial cost
Wisconsin	Limited to number of years of participation in WRS at time of purchase	Actuarial cost

For additional resources, see the results of the National Council on Teacher Retirement Portability Study (1999 and 2001 update), www.nctr.org. See also the National Education Association's publication entitled "Characteristics of Large Public Education Pension Plans" (2004), www.nea.org.

Executive Committee and SCPP Recommendations:

Allow members of Plans 2 and 3 to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System according to the terms outlined on pages 2 and 3 of this report.

Bill Draft (Attached)

Draft Fiscal Note (Attached)

Stakeholder Input (Attached)

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0837.1/06
ATTY/TYPIST:	LL:rmh
BRIEF DESCRIPTION:	Purchasing service credit in plan 2 and plan 3 of the teachers' retirement system for public education experience performed as a teacher in a public school in another state or with the federal government.

AN ACT Relating to purchasing service credit in plan 2 and plan 3 of the teachers' retirement system for public education experience performed as a teacher in a public school in another state or with the federal government; adding new sections to chapter 41.32 RCW; and providing an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.32 RCW under the subchapter heading "plan 2" to read as follows:

(1) An active member who has completed a minimum of five years of creditable service in the teachers' retirement system may, upon written application to the department, make a one-time purchase of up to seven years of service credit for public education experience outside the Washington state retirement system, subject to the following limitations:

(a) The public education experience being claimed must have been performed as a teacher in a public school in another state or with the federal government;

(b) The public education experience being claimed must have been covered by a retirement or pension plan provided by a state or political subdivision of a state, or by the federal government;

(c) The member is not currently receiving a benefit or currently eligible to receive an unreduced retirement benefit from a retirement or pension plan of a state or political subdivision of a state or the federal government that includes the service credit to be purchased;

(d) The member has less than ten years of creditable service in the retirement system; and

(e) The purchase will not result in the purchase of service credit years that exceed the member's total years of creditable service in the retirement system at the time of purchase.

(2) The service credit purchased shall be membership service, and may be used to qualify the member for retirement.

(3) The member shall pay the product of the sum of the employer and employee contribution rates multiplied by the member's annualized salary at the time of purchase and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in chapter 41.45 RCW. Compounded interest shall be applied to each year of service credit purchased as follows: No interest for the first year, one years' interest for the second year, two years' interest for the third year, three years' interest for the fourth year, four years' interest for the fifth year, five years' interest for the sixth year, and six years' interest for the seventh year. The applicable employer and employee contribution rates shall be based on the member's age at entry into the retirement system and calculated under the entry age normal cost method.

(4) The member may pay all or part of the cost of the service credit to be purchased with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to

determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(5) The employer may pay all or a portion of the member's cost of the service credit purchased under this section.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.32 RCW under the subchapter heading "plan 3" to read as follows:

(1) An active member who has completed a minimum of five years of creditable service in the teachers' retirement system may, upon written application to the department, make a one-time purchase of up to seven years of service credit for public education experience outside the Washington state retirement system, subject to the following limitations:

(a) The public education experience being claimed must have been performed as a teacher in a public school in another state or with the federal government;

(b) The public education experience being claimed must have been covered by a retirement or pension plan provided by a state or political subdivision of a state, or by the federal government;

(c) The member is not currently receiving a benefit or currently eligible to receive an unreduced retirement benefit from a retirement or pension plan of a state or political subdivision of a state or the federal government that includes the service credit to be purchased;

(d) The member has less than ten years of creditable service in the retirement system; and

(e) The purchase will not result in the purchase of service credit years that exceed the member's total years of creditable service in the retirement system at the time of purchase.

(2) The service credit purchased shall be membership service, and may be used to qualify the member for retirement.

(3) The member shall pay the product of the employer contribution rate multiplied by the member's annualized salary at the time of purchase and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in chapter 41.45 RCW. Compounded interest shall be applied to each year of service credit purchased as follows: No interest for the first year, one years' interest for the

second year, two years' interest for the third year, three years' interest for the fourth year, four years' interest for the fifth year, five years' interest for the sixth year, and six years' interest for the seventh year. The total amount paid by the member shall be deemed a contribution on behalf of the employer for the purpose of RCW 41.32.867, and shall not be refundable. The applicable employer contribution rate shall be based on the member's age at entry into the retirement system and calculated under the entry age normal cost method.

(4) The member may pay all or part of the cost of the service credit to be purchased with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(5) The employer may pay all or a portion of the member's cost of the service credit purchased under this section.

NEW SECTION. **Sec. 3.** This act takes effect January 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	10/6/05	Z-0785.1/Z-0837.1

SUMMARY OF BILL:

This bill impacts the Teachers' Retirement System (TRS) by allowing members of Plans 2 and 3 to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System. The public education experience claimed must have been covered by a governmental retirement or pension plan, and the member must not be receiving a benefit or eligible to receive an unreduced retirement benefit that includes the service to be purchased. To take advantage of this provision, a member must have at least five and less than ten years of service credit in TRS. The purchase cannot result in the purchase of service credit that is greater than the member's total years of creditable service in the retirement system.

The member pays the product of the sum of the applicable employer and employee contribution rates multiplied by the member's salary at the time of purchase, and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in the actuarial funding chapter, Chapter 41.45 RCW. The applicable employer and employee contribution rates are based on the member's age at entry into TRS and calculated under the entry age normal cost method. All or part of the cost may be paid by a rollover or transfer from an eligible retirement plan, and the employer may pay all or a portion of the member's cost. The service credit purchased is membership service and may be used to qualify the member for retirement.

Effective Date: January 1, 2007

CURRENT SITUATION:

Currently members of TRS may use out-of-state service credit solely for the purpose of determining the time at which the member may retire. The service credit is not purchased and it is not membership service. The member's monthly benefit is actuarially reduced to recognize the difference between the age the member would have first been able to retire based on service in the State of Washington and the member's retirement age using the out-of-state service credit.

MEMBERS IMPACTED:

We estimate that 1,236 TRS 2 members out of 7,470 active TRS 2 members, and 26,803 TRS 3 members out of 49,302 active TRS 3 members could be affected by this bill.

We estimate that a typical member impacted by this bill would purchase 1.15 years of out-of-state service. The entry age normal cost rate used to determine the purchase price would vary by the member's entry age. The cost of purchasing 1.15 years of service for a typical member with a salary of $50,000 would be as follows:

Plan 2 Member: $50,000 x 11.80% x (1 + 1.08(.15)) = $6,856
Plan 3 Member: $50,000 x 5.90% x (1 + 1.08(.15)) = $3,428

ASSUMPTIONS:

We estimated that the average member would buy 1.15 years of service based on a sample of out-of-state service for 6,850 members. These members had a total of 10,815 years of out-of-state service, or an average of 1.58 years per member. When the service was limited to seven years, the members in the sample had a total of 7,910 years, or an average of 1.15 years.

Plan 2 members pay both the member and the employer rate. Plan 3 members pay the employer rate only. The contributions to purchase Plan 2 service would be included with the regular and refundable Plan 2 member contributions. The contributions to purchase Plan 3 service would not be refundable but would be used to determine the Plan 3 defined benefit. The purchase of the first year has no interest. The second year interest rate is 8 percent.

We included the out-of-state service for the benefit calculation, retirement eligibility, and vesting service. Some of our demographic assumptions such as turnover and step salary increases are service based. Our experience studies to determine these rates are based on TRS service only. For estimating the cost of this bill, we assumed that a member's turnover and merit increases would be based on service with TRS only.

FISCAL IMPACT:

Description:

The member would pay for the cost of the additional service, but the plan would be partially subsidizing the cost because the interest is based on the date of purchase, not on the adjusted date of hire.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

(Dollars in Millions)	Teachers' Retirement System Plan 2/3 Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$5,256	$18	$5,274
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	N/A	N/A	N/A
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$(1,427)	$14	$(1,413)

Increase in Contribution Rates: (Effective 09/01/2006)

Current Members	
Employee	0.05%
Employer State	0.05%
New Entrants*	
Employee	n/a
Employer State	0.07%

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	TRS 2/3
2006-2007	
State:	
General Fund	$1.4
Non-General Fund	$0.0
Total State	$1.4
Local Government	$0.8
Total Employer	$2.2
Total Employee	$0.2
2007-2009	
State:	
General Fund	$3.3
Non-General Fund	$0.0
Total State	$3.3
Local Government	$1.6
Total Employer	$4.9
Total Employee	$0.4
2006-2031	
State:	
General Fund	$88.9
Non-General Fund	$0.0
Total State	$88.9
Local Government	$44.5
Total Employer	$133.4
Total Employee	$2.8

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teachers' Retirement System. Fiscal Budget Determinations were based on preliminary 2004 data.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This draft fiscal note is intended for use only during the 2006 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Rate increases are based on rates that exclude the cost of gain sharing.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

WASHINGTON SCHOOL PERSONNEL ASSOCIATION

RECEIVED
MAY 17 2004
Office of
The State Actuary

May 13, 2004

Senator Shirley Winsley
Chair, Select Committee on Pension Policy
P O Box 40914
Olympia, WA 98504-0914

Dear Senator Winsley:

The Washington School Personnel Association has a growing concern with Plan 3 retirement systems. Our primary focus is the Teachers Retirement System (TRS), however the challenges and concerns are equally applicable to School Employees' Retirement System (SERS) and Public Employees Retirement System (PERS). We very much appreciate the commitment by the Select Committee to study this issue ("Working Until Age 65") during the 2004 interim. The purpose of this letter is to offer a study guideline for your consideration.

As structured, an employee must effectively work to age 65 to qualify for a viable retirement. For teachers, this means remaining in the classroom for forty to forty-five (40-45) years after acquiring a basic education degree. While teachers are lifelong learners, the expectation of maintaining a viable mastery of knowledge over such a pro-longed period of time is overwhelming. Further, the age requirement fails to appreciate the rigors of performing the duties of a classroom teacher over such an extended period.

We recognize that in designing Plan 3, legislatures acted on the assumption that the defined benefit portion of the retirement plan (1% per year) would become secondary to the defined contribution (investment) in value, and that the added portability of the investment portion would provide an attractive alternative to those leaving service before age 65. It is interesting to note that recent news articles state that participation in 401K plans decreased 2.5% in 2002 and another 3.6% in 2003, and currently rests at 72.6% participation. The same source noted that 42% of workers must cash out their 401K investment when changing jobs. We see this as a more than a transition. Clearly employees recognize that the investment returns of the 1990's were an anomaly that is not likely to be repeated in the future. Consequently, a viable defined benefit is essential to the total compensation package necessary to attract and retain quality educators.

In today's environment and the foreseeable future, 1% per year (30% over three years) is not a viable amount. This is particularly critical, when one considers the severity of the penalty for early retirement. A teacher retiring at age 55 with 30 years of services would only be entitled to 70% of their average earnings for a net benefit of 21% for 30 years of service. The same employee with 29 years of service would be subject to an actuarial reduction instead of a fixed 3% reduction and would only receive 37% of their defined benefit, or 11.1%. With these parameters, working to age 65 becomes mandatory; not an option.

A final, and extremely significant, concern with Plan 2 and 3 is the inability to purchase service credit for out of state service. School Districts increasingly conduct interstate recruiting. Teachers who are vested in another state and who have no opportunity to purchase service credit in Washington State are increasingly less likely to consider a transfer. A purchase option must be available and affordable. Prior provisions for purchasing out of state service credit (i.e., Plan 1) required that the employee pay the full actuarial value for such credit. This rendered it unaffordable. The example used in DRS Information Sheets discloses that an employee earning $50,000, who is 50 years of age, who purchases 3 years of service credit will be required to pay $34,159 dollars. In a recruitment and retention perspective, the objective is not zero cost to the State of Washington. Rather, it is treating the experience as though it had been earned in Washington in exchange for the commitment to future Washington employment.

We understand that resolving these concerns has significant cost considerations. However, in that regard, we note that the Washington State contribution to employee retirement in TRS 3 has declined from 11.94% in 1999 to 1.39% in 2003. While this helped balance budget deficits during difficult years, it did so by removing the funding capacity from the retirement system that would have allowed for necessary changes. We believe that with difficult times beginning to move to the past, it should be a legislative priority to restore this "borrowed" funding capacity. We believe new funding ideas, as well as restoration of state contributions, are necessary to create an affordable and financially viable system for both the State and the employee.

We ask that the State Actuary consider alternatives to the above considerations in the conduct of the interim study. As always, the Association, representing School District Human Resource professionals across the State, appreciates the positive and supportive position taken by the Select Committee and the preceding Joint Pension Policy Committee.

Sincerely,

Randy Hathaway
Executive Director

cc: Barb Mertens, WASA